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IMPACT OF CHANGES IN INTERNATIONAL STANDARDS ON AUSTRALIA'S INTERNATIONAL ACCOUNTS

The ABS is progressively upgrading its macro-economic statistics to incorporate new international statistical standards. Commencing in November 1997 with the re-release of June quarter 1997 international accounts, Australia's balance of payments (BOP) and international investment position (IIP) statistics were upgraded to the new statistical standards contained in the fifth edition of the Balance of Payments Manual (BPM5) promulgated by the International Monetary Fund. Statistics in the 1998 edition of Yearbook Australia incorporated data presented on a BPM5 basis.

In November 1998, the ABS re-released the June quarter 1998 national accounts compiled under new standards (System of National Accounts (SNA93)). Both SNA93 and BPM5 have been developed by the international statistical community with a primary objective of achieving, to the extent possible, full consistency between the standards set for national and international accounts statistics. Therefore, from the September quarter 1998, all of Australia's BOP and IIP statistics are fully consistent with statistics for the rest of the world in the national accounts. This was the first time that the statistics have attained full consistency.

Because of the timetable for this edition of Year Book Australia, the data presented here for both the national and international accounts do not yet reflect the changes required to meet SNA93. Those changes will be incorporated in next year's edition.
The changes result in a comprehensive set of international accounts statistics that provide for meaningful analysis, enhance the international comparability of Australia's BOP and IIP statistics and achieve harmonisation of statistical concepts, definitions, statistical units, classifications and terminology. A detailed assessment of the changes required to meet BPM5 standards, and some of the changes required for SNA93, can be obtained from the ABS Information Paper Upgraded Balance of Payments and International Investment Position Statistics (5365.0). Below is a summary of the major BPM5 changes and their impacts, together with the more significant changes to international accounts statistics that have been required to meet SNA93.

BPM5 changes
General changes include:

- A new structure and classification of the accounts, incorporating financial transactions in a renamed financial account, and introducing a new capital account for recording separately both capital transfers and transactions in non-produced, non-financial assets.
- Other changes are listed separately for each account.

Goods and services

- Many additional service categories have been identified in standard presentations.
- Royalties and licence fees have been reclassified from income into services.

- There is an improved method of measuring international insurance services.
- Certain goods crossing the customs frontier for processing and re-export or re-import, that do not change ownership, are recorded gross.
- Estimates are included of the implicit net fees earned by residential financial intermediaries in foreign exchange trading with non-residents.

Income

- Royalty and copyright payments are reclassified from income to services.
- Extraordinary insurance claims related to catastrophes, such as earthquakes and cyclones, are excluded from income and included in current transfers.
- Imputed investment income is included, both on the element of prepayment in insurance premiums and on outstanding claims.
- For investment income there is a change from a due for payment basis to an accrual measure.
- Current transfers
- This is a new account that excludes capital transfers such as migrant's transfers and certain of Australia's foreign aid transfers.
- Australia's contributions to a range of international organisations are now classified as current transfers rather than as a financial claim.
- The changed treatment of insurance transactions has a significant impact on current transfers.
- Capital account
- This new account primarily comprises capital transfers, including migrants' transfers and certain aid flows from the former item 'unrequited' transfers.
- It also includes the acquisition (less disposal) of non-produced non-financial assets, relating to the sale of patents, copyrights, etc. and certain transactions in embassy land.

Financial account

- This is a renaming of the former capital account, but the structure and details are significantly different.
- The definition of direct investment excludes normal banking transactions between affiliated financial intermediaries.
- A maturity dissection, based on original contractual maturity, is introduced for much of the other investment category.
- The definition of debt has been expanded to include all non-equity assets and liabilities.
- In addition to the standard presentation, on a net basis, of transactions and positions in direct investment debt assets and liabilities, these are now also recorded on a gross basis.
- Cross-border transactions in financial derivatives are included, from reference year 1994-95.
- International investment position
- BPM5 is the first edition to include standards for the structure and compilation of the IIP.
- The BOP changes to the financial account in terms of structure, measurement of debt and inclusion of financial derivatives apply equally to the IIP.
- The IIP reconciliation format now provides the separate identification of price changes.

Impacts

Many of the changes above, while providing enhanced detailed analysis of the accounts, have little or no net effect on the overall account balances. Those that do have a significant effect are quantified below for 1996-97, the last year compiled before BPM5 was introduced.

- The reclassification of capital transfers to the new capital account from the current account has increased the current account deficit by $1.1b in 1996-97.
- The adoption of accrual accounting for the measurement of investment income flows results in an increase of $1.0b in the current account deficit for 1996-97.
- There is an increase of $50b in gross foreign debt at 30 June 1997 from widening the scope of debt (adding $15b), the inclusion of financial derivatives (adding $10b) and grossing up of debt transactions between affiliated enterprises (adding $25b).
- There is an increase in net foreign debt of $4b arising from the changes noted in the previous point.
- SNA93 changes
- Constant price estimates of goods and services that are rebased every five years will be replaced by annually reweighted, chain Laspeyres volume measures (CVMs). The related implicit price deflators will be derived from these chain volume measures, and the terms of trade (TOT) will be derived from these new deflators. The impact on the TOT is significant. Using 1989-90 based constant prices, the TOT rose 19% in the 12 years to June 1998. Using CVMs, the increase in TOT is only 10%.
- There will be a measure of the indirect provision of financial services by deposit taking institutions in the acceptance of deposits and the making of loans. This financial intermediation service indirectly measured (FISIM) affects both services credits and debits (by about $0.1b each in 1997-98) as well as income, with no net effect on the current account.
- The Central Borrowing Authorities (CBAs) established by the State and Territory Governments will be reclassified from the government sector to the financial corporations sector in income, the financial account and the IIP, with no net effect on major aggregates.
